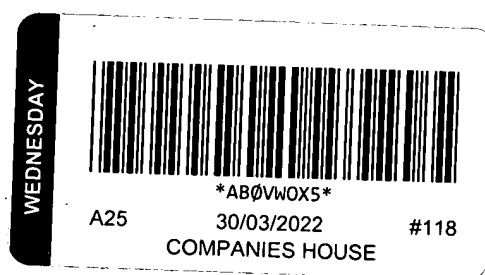


Registration number: 05440463

Kennametal Manufacturing UK Limited

Annual Report and Financial Statements

for the year ended 30 June 2021



Contents

	Page(s)
Company Information	1
Strategic Report	2-3
Directors' Report	4-7
Independent Auditors' Report	8-10
Statement of Comprehensive Income	11
Statement of Financial Position	12
Statement of Changes in Equity	13
Notes to the Financial Statements	14-29

Company information

Directors	M Williams
	J Grainger
Company secretary	J Grainger
Registered office	Building 14 PO BOX 29 Pensnett Trading Estate Kingswinford West Midlands DY6 7NP
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors East Midlands Donington Court Pegasus Business Park Castle Donington DE74 2UZ
Bankers	Bank of America 2 King Edward Street London EC1A 1HQ

Strategic Report

for the year ended 30 June 2021

The directors present their strategic report for the year ended 30 June 2021.

Principal activities

The principal activity of the company is the reconditioning of carbide drills at the Kingswinford facility and the production of boride powders and inter-metallic evaporation sources at the Newport Facility.

Fair review of the business

The business environment is highly competitive and the company has differentiated itself from its competitors by focusing on state of the art manufacturing technologies and processes in order to deliver both a cost competitive and technologically enhanced product offering.

The company's overriding objective is to achieve attractive and sustainable rates of profitable growth through a combination of organic growth and acquisitions. The key elements of the company's strategy for growth are:

- Developing its product range and increasing the number of new products.
- Effective training and development to retain employees and deliver the customer service promise.

The directors consider the results for the year to be in line with expectations.

Results for the year

The profit for the financial year amounted to £297,000 (2020: £152,000).

Key performance indicators (KPI's)

The primary KPI used by management is growth in turnover generated in the wider Kennametal Group, through the activities of this company. The turnover in 2021 was £5,301,820 (2020: £5,279,485). The activities of the company are closely linked with those of the Kennametal Group, which is driven by the portfolio management, and sales and marketing strategy.

As a result of the straightforward nature of the business, the company's directors are of the opinion that analysis using other KPI's is not necessary for an understanding of the development, performance or position of the business. The activities of the company are closely linked with those of the Kennametal Group and therefore group KPI's are monitored at a group level.

Strategic Report

for the year ended 30 June 2021

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company relate to increased competition, uncertainty in the manufacturing sector and economic instability. From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of Kennametal Inc. Group, which include those of the company, are discussed in the group's annual report which does not form part of this report.

Financial risk management policies and procedures

The key financial risk that the company's operations expose it to is price risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company.

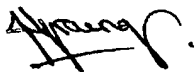
The company's turnover is invoiced in Pounds Sterling and all of its operations and costs are also invoiced in Pounds Sterling. Consequently the impact of movements in exchange rates on the performance of the company are minimised.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management. The policies set by the directors are implemented by the company's finance department. The directors are committed to ensuring that the highest quality risk management systems are in operation. The objective is to safeguard the interests of the shareholders, suppliers, customers and staff through effective management of corporate and operational risk.

Price risk - The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits.

Approved by the Board on ^{23.03.22}_____ and signed by

J Grainger
Director



Directors' report

for the year ended 30 June 2021

The directors present their annual report and the audited financial statements for the year ended 30 June 2021.

Directors of the company

The directors who held office during the year and up to the date of signing the financial statements were as follows:

M Williams

J Grainger

Dividends

The directors do not recommend the payment of any dividends (2020: £nil).

Directors' indemnities

The company maintains liability insurance for its directors and officers. Following shareholder approval the company has also provided an indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. The qualifying indemnity was in force during the financial year and also at the date of approval of the financial statements.

Employment of disabled persons

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retaining being given if necessary.

Employee consultation

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company.

Directors' Report

for the year ended 30 June 2021

COVID-19 and Kennametal Inc.

On March 11, 2020, the World Health Organization declared the Coronavirus Disease 2019 (COVID-19) a pandemic bringing significant uncertainty in Kennametal's end markets and operations. Since then, national, regional and local governments have taken steps at various times since the pandemic began to limit the spread of the virus through stay-at-home, social distancing, and various other orders and guidelines. Although some jurisdictions have relaxed these measures, others have not or have reinstated them as COVID-19 cases surge and variants emerge. The imposition of these measures has created significant operating constraints on Kennametal's business. Throughout the pandemic, based on the guidance provided by the U.S. Centers for Disease Control and other relevant authorities, the company has deployed safety protocols and processes to keep employees safe while continuing to serve customers. To date, we have not experienced a material disruption in our supply chain. The extent to which the COVID-19 pandemic may continue to affect our business, operating results or financial condition in the future will depend on future developments, including the duration of the outbreak, the emergence of more contagious or virulent strains of the virus, travel restrictions, business and workforce disruptions, the availability, update and efficacy of vaccines and the effectiveness of other actions taken to contain and treat the disease.

The Kennametal Inc. Group's and regional forecasts scenarios consider COVID-19 impacts and demonstrate that in worst case scenarios, that the UK entity will be able to operate for at least twelve months from the approval date of these Financial Statements. Kennametal has a strong liquidity position and sufficient funding available. Beside solid available own cash, Kennametal has a revolving credit facility agreement which allows up to \$700M. EMEA can participate with up to \$250M in this credit agreement, not considering additional available local credit lines.

Going concern

The company receives reimbursement and Markup from the Toller contract with Kennametal Europe GmbH on a monthly basis. The entity is able to fully finance its cost with those payments. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The entity has a short term receivable against Kennametal Holding GmbH from the Cash Pool of GBP 1,277k as of June 2021.

The KMT group has a solid liquidity position. However continues closely monitoring the still challenging business environment, especially COVID-19 exposure. The company has GBP 1,277k as at 30 June 2021 on deposit with the Cash pool Holder Kennametal Holding GmbH. The company received confirmation for the continuation of the contractual arrangements under the Logistics Service contract from Kennametal Europe GmbH for the foreseeable future, at least 12 months from the signing of the Financial Statements for 2021.

The company has made enquiries to the directors of Kennametal Holding GmbH, which is the Cash Pooling Holder of the EMEA Kennametal Group and they confirmed there is currently no risk in the Financing structure of the group, and liquidity will be assured for the foreseeable future. The directors, having assessed the responses of the directors of the company's parent enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the group's ability to continue with the current cash generation and banking arrangements.

The company believes that it is appropriate for the company's financial statements to have been prepared on a going concern basis and that no further disclosures relating to the company's ability to continue as a going concern need to be made.

Directors' Report

for the year ended 30 June 2021

Brexit risk

The UK Brexit transition period ended on 31 December 2020. On December 24, 2020, the U.K. and the EU struck a provisional free-trade agreement that ensures the two sides can trade goods without tariffs or quotas. Except from trade compliance and tax processes adjustments, the directors do not believe that it will have a material impact on the business but will continue to monitor further events closely.

Events since the balance sheet date

Please see note 22 for details of the Company events after the reporting date.

Financial risk management

Further details of the company's activities in respect of financial risk management are included in the Strategic Report on page 3.

Future developments

The company works under the Toll Manufacturing Contract with Kennametal Europe GmbH, and has received confirmation about the continuation of the contractual arrangements with Kennametal Europe GmbH for the foreseeable future, at least 12 month from the signature of Financial Statement 2021. Planned volumes for FY22 are expected to show some small growth with those of FY21 in the food packaging market, and also growth in machining and contract press as aerospace market starts to recover from Covid impact.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Directors' Report

for the year ended 30 June 2021

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

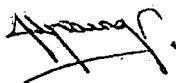
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Reappointment of auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office. The independent auditors PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

The financial statements on pages 11 to 29 were approved by the Board of Directors on 23.03.22 and signed on its behalf by:

J Grainger
Director



Independent Auditors' Report to the members of Kennametal Manufacturing UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Kennametal Manufacturing UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 June 2021; the Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information.

Independent Auditors' Report to the members of Kennametal Manufacturing UK Limited

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax and UK employment legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate use of journal entries or the use of inappropriate accounting estimates / judgements. Audit procedures performed by the engagement team included:

- enquiries of management regarding any known instances of fraud, non-compliance with laws and regulations or and suspected or known claims made against the company;
- reviewing board minutes and fees paid to professional advisors in order to ascertain any previously undisclosed matters noted above;

Independent Auditors' Report to the members of Kennametal Manufacturing UK Limited

- performing a risk-based test on journal entries which included test to ensure completeness of the data being subject to our analysis and then testing of journals back to supporting data where these triggered the criteria for further analysis;
- evaluating the appropriateness of management's significant judgements and estimates, as disclosed in the notes to the financial statements. This included assessing the validity of any models or data utilised by management in their assessment and understanding management's track record for accuracy compared to the outcome of prior years judgements in the current financial year. Audit procedures were then performed on the current years estimates / judgements which included assessing if these met the requirements of FRS 102 and were materially accurate based upon transactions and events that occurred post year end;
- reviewing the Annual Report to ascertain if all required disclosures under FRS 102 and the Companies Act had been appropriately made; and
- performing unpredictable audit procedures which are changed year on year.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

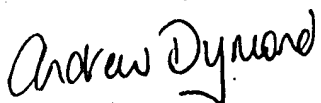
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Andrew Dymond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
23 March 2022

Statement of Comprehensive Income
for the year ended 30 June 2021

		2021 £'000	2020 £'000
	<i>Note</i>		
Turnover	4	5,302	5,279
Cost of sales		<u>(4,939)</u>	<u>(5,078)</u>
Gross profit		363	201
Other operating income	5	<u>92</u>	<u>-</u>
Operating profit	6	455	201
Interest receivable and similar income	7	<u>-</u>	<u>3</u>
Profit before taxation		455	204
Tax on profit	11	<u>(158)</u>	<u>(52)</u>
Profit for the financial year		<u>297</u>	<u>152</u>

The above results were derived from continuing operations.

The company has no recognised gains or losses for the year other than the results above.

The notes on pages 14 to 29 form an integral part of these financial statements.

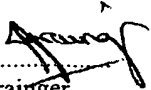
Statement of Financial Position

as at 30 June 2021

Registration number: 05440463

	Note	2021 £'000	2020 £'000
Fixed assets			
Intangible assets	12	20	20
Tangible assets	13	2,741	3,023
		<u>2,761</u>	<u>3,043</u>
Current assets			
Debtors: amounts falling due within one year	14	2,267	1,331
		<u>2,267</u>	<u>1,331</u>
Creditors: Amounts falling due within one year	15	(1,016)	(817)
Net current assets		<u>1,251</u>	<u>514</u>
Total assets less current liabilities		4,012	3,557
Provisions for other liabilities	16	(194)	(36)
Net assets		<u>3,818</u>	<u>3,521</u>
Capital and reserves			
Called up share capital	18	5	5
Share premium account		130	130
Profit and loss account		3,683	3,386
Total equity		<u>3,818</u>	<u>3,521</u>

Approved and authorised by the Board on 23.03.22 and signed on its behalf by:


J Grainger
Director

The notes on pages 14 to 29 form an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 30 June 2021

	<i>Called up Share capital £'000</i>	<i>Share premium account £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
At 1 July 2019	5	130	3,234	3,369
Profit for the financial year	-	-	152	152
At 30 June 2020	5	130	3,386	3,521
At 1 July 2020	5	130	3,386	3,521
Profit for the financial year	-	-	297	297
At 30 June 2021	5	130	3,683	3,818

The notes on pages 14 to 29 form an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 30 June 2021

1 General information

Kennametal Manufacturing UK Limited's principal activity is the reconditioning of carbide drills at the Kingswinford facility and the production of boride powders and inter-metallic evaporation sources at the Newport facility.

The company is a private company limited by share capital, is incorporated in England and domiciled in the UK.

The address of its registered office is Building 14, PO BOX 29, Pensnett Trading Estate, Kingswinford, West Midlands, DY6 7NP, United Kingdom.

2 Accounting policies

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ('FRS 102') and the Companies Act 2006.

Basis of preparation

These financial statements have been prepared using the historical cost convention.

These financial statements are presented in £ (GBP).

The level of rounding is to the nearest thousand ('000).

Exemptions for qualifying entities under FRS102

FRS 102 allows a qualifying entity certain disclosure exemptions. Exemptions under FRS 102 paragraph 1.12 have been applied in relation to: presentation of a cash flow statement, related party transactions, certain financial instrument disclosures and the non-disclosure of key management personnel compensation.

Cash flow statement

The company is a wholly owned subsidiary company of a group headed by Kennametal Inc., and is included in the consolidated financial statements of that company, which are publicly available via the company's website www.kennametal.com or from Kennametal Inc., 525 William Penn Place Suite 3300 Pittsburgh, Pennsylvania, United States of America. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 102 paragraph 1.12 (b).

Notes to the Financial Statements

for the Year Ended 30 June 2021

2 Accounting policies (continued)

Related party transactions

The company has taken advantage of the exemption granted under FRS 102 paragraph 1.12 (e) to not disclose transactions with other group companies where they are wholly owned by a common parent entity.

Going concern

The company receives reimbursement and Markup from the Toller contract with Kennametal Europe GmbH on a monthly basis. The entity is able to fully finance its cost with those payments. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The entity has a short term receivable against Kennametal Holding GmbH from the Cash Pool of GBP 1,277k as of June 2021.

The KMT group has a solid liquidity position. However continues closely monitoring the still challenging business environment, especially COVID-19 exposure. The company has GBP 1,277k as at 30 June 2021 on deposit with the Cash pool Holder Kennametal Holding GmbH. The company received confirmation for the continuation of the contractual arrangements under the Logistics Service contract from Kennametal Europe GmbH for the foreseeable future, at least 12 months from the signing of the Financial Statements for 2021.

The company has made enquiries to the directors of Kennametal Holding GmbH, which is the Cash Pooling Holder of the EMEA Kennametal Group and they confirmed there is currently no risk in the Financing structure of the group, and liquidity will be assured for the foreseeable future. The directors, having assessed the responses of the directors of the company's parent enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the group's ability to continue with the current cash generation and banking arrangements.

The company believes that it is appropriate for the company's financial statements to have been prepared on a going concern basis and that no further disclosures relating to the company's ability to continue as a going concern need to be made.

Revenue recognition

Revenue is recognised when the risks and rewards of ownership are transferred to a third party, typically when the goods are delivered to the customer.

Turnover represents amounts derived from the reconditioning of carbide drills and the production of boride powders and inter-metallic evaporation sources. Turnover is shown net of value added tax, returns and discounts.

Notes to the Financial Statements

for the year ended 30 June 2021

2 Accounting policies (continued)

Grants

Grants received in respect of capital expenditure are included within accruals and deferred income within creditors and released to the profit and loss account over the expected useful lives of the related assets.

The company has also received amounts under the Coronavirus Job Retention Scheme provided by the government due to the Covid-19 pandemic and amount related to the same is recognised in the profit and loss are presented under the heading Other operating income.

Foreign currency transactions and balances

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred tax is recognised in respect of all timing differences between taxable profits and profits reported in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference.

Tangible assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Construction in progress includes cost of building under construction as at the balance sheet date.

Notes to the Financial Statements

for the year ended 30 June 2021

2 Accounting policies (continued)

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows;

Freehold buildings	50 years
Office equipment	3 to 8 years
Plant and machinery	5 to 15 years

Freehold land and construction in progress is not depreciated.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised as a profit/loss on disposal.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of between three and five years, on a straight line basis. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Leases

Arrangements which transfer substantially all of the risks and rewards of the assets to the company are classified as finance leases. All other arrangements are classified as operating leases. Amounts payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term.

Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution and defined benefit pension plans.

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

Notes to the Financial Statements

for the year ended 30 June 2021

2 Accounting policies (continued)

Financial instruments

The company has adopted sections 11 and 12 of FRS102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade debtors, cash and bank balances and amounts owed by group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rates of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the assets expire or are settled, or (b) substantially all the risk and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other creditors and amounts owed to group undertakings are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest.

Share capital

Ordinary shares are classified as equity. Dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividend and other distributions are approved by the shareholders. These amounts are recognised in the Statement of Changes in Equity.

Notes to the Financial Statements

for the year ended 30 June 2021

2 Accounting policies (continued)

Defined contribution pension obligation

The company operates a defined contribution pension scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

Defined benefit pension obligation

The company also participates in the Kennametal Defined Benefit Pension Scheme (the "Scheme"), which is a multiemployer final salary Scheme.

In accordance with FRS 102, Paragraph 28, the whole of the scheme is accounted for within the financial statements of Kennametal UK Limited, on the basis that it is the sponsoring employer.

3 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives. The useful economic lives are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

Deferred tax asset recognition

Deferred tax asset in respect of unrelieved tax losses are only recognised when it is probable that they will be recovered against future taxable profits. There is a degree of estimation and judgement in assessing the level of future profitability. The net deferred tax asset has therefore been recognised due to the certainty of future taxable profits and the fact that the company has established a track record of taxable profits over prior years.

4 Turnover

The analysis of the company's turnover for the year by market is as follows:

	2021 £'000	2020 £'000
UK	<u>5,302</u>	<u>5,279</u>

Notes to the Financial Statements
for the year ended 30 June 2021

4 Turnover (continued)

Analysis of turnover by category:

	2021 £'000	2020 £'000
Sales of goods	<u>5,302</u>	<u>5,279</u>

5 Other operating income

	2021 £'000	2020 £'000
Grant income	<u>92</u>	<u>-</u>

6 Operating profit

Arrived at after charging/(crediting)

	2021 £'000	2020 £'000
Depreciation expense	433	422
Operating leases expense - company car	8	7
Amortisation expense	6	7
Loss on disposal of property, plant and equipment	10	2
Release of grant	<u>4</u>	<u>(125)</u>

7 Interest receivable and similar income

	2021 £'000	2020 £'000
Interest from group undertakings	<u>-</u>	<u>3</u>

Notes to the Financial Statements

for the year ended 30 June 2021

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2021 £'000	2020 £'000
Wages and salaries	1,837	1,983
Social security costs	185	210
Other pension costs, defined contribution scheme	129	139
	<u>2,151</u>	<u>2,332</u>

The monthly average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2021 No.	2020 No.
Production	<u>53</u>	<u>57</u>

9 Directors' emoluments

The directors' remuneration for the year was as follows:

	2021 £'000	2020 £'000
Aggregate emoluments	<u>199</u>	<u>242</u>

Retirement benefits are accruing to two directors (2020: two) under the defined benefit pension scheme. Aggregated payments of £5,985 (2020: £6,270) were made to the defined contribution pension scheme.

The highest paid director has received the following amount:

	2021 £'000	2020 £'000
Emoluments	113	153
Benefits in kind	18	19
Pension costs, defined contribution scheme	5	6
	<u>136</u>	<u>178</u>

Notes to the Financial Statements

for the year ended 30 June 2021

10 Auditors' remuneration

	2021 £'000	2020 £'000
Audit of the financial statements	<u>20</u>	<u>16</u>

11 Tax on profit

Tax in the statement of comprehensive income:

	2021 £'000	2020 £'000
Deferred taxation		
Origination and reversal of timing differences	108	54
Effect of tax rate change on opening balance	<u>50</u>	<u>(2)</u>
Total deferred taxation	<u>158</u>	<u>52</u>
Tax expense in the income statement	<u>158</u>	<u>52</u>

The tax assessed for the year is lower (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The charge for the year can be reconciled to the profit per the income statement as follows:

	2021 £'000	2020 £'000
Profit before taxation	<u>455</u>	<u>204</u>
Tax on profit at standard UK tax rate of 19% (2020: 19%)	86	39
Fixed asset differences	11	-
Effect of expenses not deductible	1	11
Effects of group relief	4	4
Tax rate changes	<u>56</u>	<u>(2)</u>
Tax for the year	<u>158</u>	<u>52</u>

Notes to the Financial Statements

for the year ended 30 June 2021

11 Tax on profit - (continued)

Factors that may affect future tax charges

The standard rate of tax applied to reported profit on ordinary activities is 19% (2020: 19%). The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. In the Finance Bill 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted).

12 Intangible assets

	<i>Software</i> <i>£'000</i>
Cost or valuation	
At 1 July 2020	79
Additions	6
Disposals	(28)
At 30 June 2021	<u>57</u>
Accumulated amortisation	
At 1 July 2020	59
Amortisation charge	6
Amortisation on disposals	(28)
At 30 June 2021	<u>37</u>
Carrying amount	
At 30 June 2021	<u>20</u>
At 30 June 2020	<u>20</u>

Notes to the Financial Statements

for the year ended 30 June 2021

13 Tangible assets

	<i>Freehold land and buildings £'000</i>	<i>Plant and machinery £'000</i>	<i>Office Equipment £'000</i>	<i>Construction in Progress £'000</i>	<i>Total £'000</i>
Cost					
At 1 July 2020	2,092	5,565	1,480	32	9,169
Additions	13	95	87	(32)	163
Disposals	(6)	(204)	(54)	-	(264)
At 30 June 2021	<u>2,099</u>	<u>5,456</u>	<u>1,513</u>	<u>-</u>	<u>9,068</u>
Accumulated depreciation					
At 1 July 2020	962	4,545	639	-	6,146
Charge for the year	61	242	130	-	433
Eliminated on disposal	(6)	(204)	(42)	-	(252)
At 30 June 2021	<u>1,017</u>	<u>4,583</u>	<u>727</u>	<u>-</u>	<u>6,327</u>
Carrying amount					
At 30 June 2021	<u>1,082</u>	<u>873</u>	<u>786</u>	<u>-</u>	<u>2,741</u>
At 30 June 2020	<u>1,130</u>	<u>1,020</u>	<u>841</u>	<u>32</u>	<u>3,023</u>

Freehold land and buildings includes Freehold Land of £259,000 (2020: £259,000) which has not been depreciated.

Notes to the Financial Statements

for the year ended 30 June 2021

14 Debtors

	2021 £'000	2020 £'000
<i>Amounts falling due within one year</i>		
Amounts owed by group undertakings	1,971	1,152
Other debtors	128	2
Prepayments and accrued income	168	177
	<u>2,267</u>	<u>1,331</u>

The amounts owed by group undertakings are unsecured and repayable on demand, with interest charged at 0.05% (2020: 0.68%).

15 Creditors

	2021 £'000	2020 £'000
<i>Amounts falling due within one year</i>		
Trade creditors	312	282
Amounts owed to group undertakings	507	433
Taxation and social security	-	14
Accruals and deferred income	197	88
	<u>1,016</u>	<u>817</u>

The amounts owed to group undertakings are unsecured and repayable on demand, with interest charged at 0.05%(2020: 0.68%).

Notes to the Financial Statements

for the year ended 30 June 2021

16 Provisions for other liabilities

Movement in deferred tax:

	2021 £'000
At 1 July 2020	(36)
Deferred tax charge to the Statement of Comprehensive Income for the year	(158)
At 30 June 2021	<u>(194)</u>

The deferred tax liability at 25% (2020: 19%) can be analysed as follows:

	2021 £'000	2020 £'000
Fixed asset timing differences	(234)	(158)
Losses	40	122
	<u>(194)</u>	<u>(36)</u>

17 Pension commitments

The company participates in the Kennametal Defined Benefit Pension Scheme (the "Scheme"). The assets of the scheme are held separately from those of the company in independently administered funds.

Pension costs are accounted for in accordance with FRS 102, Paragraph 28. The company participates in the Kennametal Defined Benefit Pension Scheme (the "Scheme"), which is a multi-employer final salary scheme.

In accordance with FRS 102, Paragraph 28, the whole of the scheme is accounted for within the financial statements of Kennametal UK Limited, on the basis that it is the sponsoring employer.

The actuarial valuation has been updated at 30 June 2021 by a qualified actuary, XPS Pensions Group, using revised assumptions that are consistent with the requirements of FRS 102, Paragraph 28. Investments have been valued, for this purpose, at fair value. The latest information, at 30 June 2021 shows that the Kennametal Defined Benefit Pension Scheme had the following net position:

Notes to the Financial Statements

for the year ended 30 June 2021

17 Pension commitments (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2021 £'000	2020 £'000
Equities	16,408	13,121
Fixed interest bonds	72,311	72,727
Others	5,735	9,213
Present value of funded liabilities	(83,771)	(86,310)
	<u>10,683</u>	<u>8,751</u>
Restriction in surplus required by FRS 102 (paragraph 28.22)	<u>(10,683)</u>	<u>(8,751)</u>
Defined benefit pension scheme surplus	<u>-</u>	<u>-</u>

Principal actuarial assumptions

The principal actuarial assumptions at the statement of financial position date are as follows:

	2021 %	2020 %
- Discount rate	1.89	1.66
- The inflation assumption (retail price index)	3.25	2.90
- The inflation assumption (consumer price index)	2.70	2.00
- Kennametal Section (post-April 1997, pre 2002 leavers)	3.15	2.85
- Kennametal Section (post-April 1997, post 2002 leavers)	2.65	2.05

The post-retirement mortality assumptions have been set in line with the latest triennial actuarial valuation but with the future improvements updated to the latest CMI 2020 projections and a long term rate of future improvements of 1.25% p.a.

Defined benefit contribution scheme

Contributions paid by the company, to the defined contribution scheme in the year amounted to £129,000 (2020: £139,000). The amounts of contributions outstanding at the year-end were £nil (2020: £nil).

Notes to the Financial Statements

for the year ended 30 June 2021

18 Called up share capital

Authorised

	<i>No.</i>	<i>2021 £'000</i>	<i>No.</i>	<i>2020 £'000</i>
Ordinary shares of £1 each	<u>50,000</u>	<u>50</u>	<u>50,000</u>	<u>50</u>

Allotted and fully paid

	<i>No.</i>	<i>2021 £'000</i>	<i>No.</i>	<i>2020 £'000</i>
Ordinary shares of £1 each	<u>5,001</u>	<u>5</u>	<u>5,001</u>	<u>5</u>

19 Operating lease commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following years:

<i>Payments falling:</i>	<i>2021 £'000</i>	<i>2020 £'000</i>
- within one year	-	10
- between two and five years	-	1
	<u>-</u>	<u>11</u>

20 Related party transactions

The company has taken advantage of the exemption granted under FRS102 paragraph 1.12 (e) to not disclose transactions with other group companies where they are wholly owned by a common parent entity.

Notes to the Financial Statements

for the year ended 30 June 2021

21 Parent and ultimate parent undertaking

The company's immediate parent is Kennametal UK Limited, incorporated in England.

Kennametal UK Limited is a wholly owned subsidiary undertakings of Kennametal GmbH (formerly Kennametal Hertel AG), incorporated in Germany. The smallest group into which the results of the company are consolidated is that headed by Kennametal GmbH (formerly Kennametal Hertel AG).

The largest group into which the results of the company are consolidated is that headed by the ultimate parent undertaking and controlling party, Kennametal Inc., incorporated in the United States of America. The consolidated financial statements of the group are available from Kennametal Inc., 525 William Penn Place Suite 3300 Pittsburgh, Pennsylvania, United States of America.

22 Events since the balance sheet date

There are no subsequent events after the reporting date.